C&P

Spring Retail Report 2012

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2012

Introduction by Graham Chase

Short Back & Sides?

Is it confidence and business potential, or bank lending which is required in the retail sector? We are firmly of the opinion it is the former.

To suggest that consumers should borrow so they can spend simply takes us back in time. The future cannot rely on growth as a matter of course. It will be hard work on the back of innovation, sound business planning and activity that will pave the way for satisfactory returns.

As we predicted in our report last spring, we have entered a double-dip recession with the UK economy in negative territory at -0.1% in Q4 in 2011 and -0.2% in Q1 2012. It will not turn positive until the beginning of 2013. The level of real household spending is likely to remain at 95% or below the peak of 2007 and will not go above 100% until 2017. Couple this with household debt at a record 170% of income and the result is a decade of lost years paying for the excesses of the previous decade.

However, household debt is now falling and is expected to go below 150% of income by the end of this year. The corporate sector is reflecting strength in corporate returns, although it is dithering about the Eurozone. Lending on commercial property is down from £292 billion as at February 2010 to £208 billion as at January 2012, a fall of nearly 30%. Unfortunately this does not reflect a significant debt reduction but the lack of new lending and write-offs. Nevertheless, it does at least begin to move the property sector back to reality and toward a base from which it can move forward, potentially in the prime sector and subject to realistic rental levels being adopted. Total costs of occupancy, especially the rates burden, are far too high for many businesses to be sustainable.

While business opportunities remain muted, we foresee bank lending continuing to focus on larger companies rather than small and medium sized business enterprises, reflecting the risks involved. It seems perverse that many politicians are suggesting that not only should bank lending be increased but that it should be focused on those areas which produce the greatest risks, and hence potentially greater losses, when prudence should be the key word. After all, Government borrowing continues to fall, with the requirement for the next 12 months at £126 billion; less than had previously been anticipated. The Government should preach what they practice and definitely not practice what they preach.

Equally, the banks do not always appear to play fair but then again they have had a very short haircut. Nobody should suggest that banks should lend on a basis which is unsound but they do need to consider backing business far more positively at the right time in the right way, otherwise they may find a backlash which gives them an even shorter haircut in the future.

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On the High Street the change in retailing is undoubtedly structural. Internet sales for non-food goods have estimates at the top end as high as 18% of expenditure, up from 7% only a few years ago and still rising. In our opinion the property industry will have to accept that physical retail facilities are going to shrink. This will not only affect town centres but include shopping centres and shopping parks which will not be immune.

Town centres should be the focus of businesses in the community, but on too many occasions both the public and private sector have failed to grasp the opportunities that exist. Town centres are not just about retailing but are highly complex communities where living and business come together. When properly managed they can take advantage of their accessibility and cross-business potential making them vital, viable and attractive.

With new development now muted, the danger is that many town centres will be left with vacant sites and outdated property, as well as planning briefs which have limited or no use or potential and will be a drain on UK GDP in the future. Town centre retailing will have to contract but it can be replaced by a wide range of other uses including local authority services, medical and health centres, business units, residential accommodation, entertainment and leisure facilities. With Amazon setting out their requirement for physical representation and central collection points perhaps the answer is to fit a window in their frontage where they can advertise and sell goods and call it a shop!

The lack of confidence in the property investment market has resulted in a dearth of transactions emphasising that base values are too high, based on historically optimistic views on rental value levels. Consequently, there is a lack of rental growth potential, which suggests that yield values, particularly for secondary property, may also be too optimistic. The restrictions of bank finance availability, which is a crucial input and transaction costs with high stamp duty rates, discourage market activity. Falling occupational demand is a fundamental worry. There has often been talk about values re-basing but until such time as they truly reflect the current economic conditions, growth will remain elusive as the banking sector and property owners simply attempt to patch up the difference between past and current values through a waiting game of "catch-up".

On a brighter note the Local Data Company have recently reported that independent retailers opened three times more stores than multiple retailers (15,233 v 5,094) in 2011 showing an increase of 3.2%, whereas multiples reduced their openings by 1.6%. Total retail and leisure opening in the top 500 town centres was 20,327 and closures amounted to 17,937 of which 12,669 were independent and 5,268 were multiples. This demonstrates that independents really do have potential in this market. However, as Mary Portas points out, the local trader cannot just open up shop, sit there and wait for business to walk in. They will have to work hard on service and value to compete effectively. Retailing is no soft option as a business and there will be no place for inefficient or poor retailers.

The Portas review offers very little that is new but has attempted to understand what the business of a town centre needs. The benefit of this review has been the wake up call to the Government to put the focus onto the future of town centres as hubs of business and living, raising their profile.

Some of the Portas suggestions were naive, as the Government response has fortunately identified. What has come forward after many years of pressure from the Association of Town Centre Managers (ATCM) is the support for town teams to manage the business of town centres more effectively and the fairer application of BIDs and the consideration of TIFS. This is undoubtedly a step in the right direction. Not so convincing is the decision to subsidise new business on a short term basis. The £10million initiative fund is likely to be a black hole, poorly focused and executed.

The greater involvement of local authorities using CPO powers to facilitate improvement and regeneration should provide an opportunity at a time when land in town centres is relatively cheap. The question is how many local authorities, given their own financial difficulties and lack of skills and resource will be able to rise to the challenge? Partnerships are required but standard local authority procurement routes are weighed down by expensive and inappropriate procedures which gravitate to the negative.

The regime of empty rates payments was an attempt to thwart developers land banking and not progressing development as values continued to rise in the boom times before 2008. This strategy now looks decidedly unfit for purpose, yet Government is closing its eyes to the damage it is doing. The empty rates burden is a significant brake on growth and employment as well as a drain on the tax payer. Even central and local Government empty rates liability is increasing and is in the region of £70 million per annum. Despite sound arguments as to why this punitive tax is damaging any chance of a recovery in the retail and property sector, politicians continue to turn a blind eye.

If Government were to abolish empty rates and at the same time lower VAT back to 17.5%, perhaps increasing VAT on luxury goods, we suspect the injection of expenditure this would bring back in to the economy, without borrowing, would increase Government revenues and accelerate economic recovery without over inflating growth. If simple surveyors can see this as a solution, what is holding back the collective intelligence of Government?

The problem may well be that the previous Government had no real property experts left, having abandoned many of their blue riband independent advisory sources such as the Property Advisory Group and until recently, scorned involvement of the professional bodies, opting for vested interest monitoring groups instead. In essence, Government has no department to understand an industry which represents over 10% of GDP and no experience upon which to draw in formulating property-related polices which work and are not damaging to the overall UK economy and its competitiveness. One of the reasons that we have entered a double-dip recession is the downturn in construction, coupled with inflation in oil and gas prices as well as rising food costs, all of which we predicted last year. This demonstrates the importance of a healthy property sector to the UK economy.

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In-Town Agency

Phoenix or Fingers Burnt?

In-Town Agency gives its thoughts on the state of the market and the prospects for future development schemes in town centres.

Where are the best prospects for rental growth?

• Where a rebasing of values now reflects the true market value, post 2007.

• The best space is still scarce in a number of centres.

• Those centres where the pre-pack phoenix companies have taken up their allocation of units, as opposed to those centres where they have been handed back. We have seen one South East centre where nearly every pre-pack has left, leading to high vacancy.

• Those centres where the mainstay fashion retailers are still keen to be represented despite the increasing influence of multi-channel retailing.

• Secondary streets in Central London as a result of affordability are becoming an issue for some in the traditional prime locations.

Retailer Debt Issues

• We are now seeing previously strong retailers such as Peacocks and Game affected as the recession continues to bite.

• The perfect storm of high debt levels mainly via private equity backing combined with falling trade, increased costs and pre-recessionary rental levels on part of the portfolio, has left little room for either manoeuvre or a sustainable business to be maintained in the future.

• The conditions above have conspired to bring down what appeared to be sound retailers with a credible offer even for these recessionary times. Only the core business will rise from the ashes based on both restructured debt and rental levels applicable for the post recessionary market.

• As a landlord or developer one would need to be very careful who to enter into incentive packaged deals with. Many of those who dealt with Peacocks over the last few years will have had their fingers burnt, paying out cash to buy-in the rent and are now finding themselves having lost both their down payment as well as their income stream.

Rent Review Scenarios

• While many retailers are placing a significant amount of blame on five yearly upward only rent reviews, one should really look at the whole picture. Any business tied in to fixed or increasing costs, and that includes debt, against a background of falling turnover and profitability is going to struggle. Property factors are not the only issue.

• The cost of taxation, particularly rates and empty rates coupled with high service charges, is often tipping the balance.

• Have we really considered where the prevalence of cap and collar deals in certain sectors is taking us from both a landlord and a tenant perspective? Your view probably depends on whether you are a retailer or a landlord, based in the North or the South.

Retail Demand

• London and parts of the South East continues to be a world apart from many of the provincial centres. With many foreign retailers establishing a beach-head in Central London, it remains to be seen whether they will expand further afield as the economy improves.

• We have also seen a number of well established Northern retailers stepping up their desire to secure further representation in the South East. This includes B&M Bargains, Home Bargains and Morrisons.

• Some chains such as H&M however, are bringing forward new brands such as Monki and Cheap Monday which recently opened in Carnaby Street, and another fascia reportedly on the blocks.

• Those groups that have failed this year include:

- Game
- Azendi
- Shoon
- Pumpkin Patch
- Peacocks
- La Senza
- Past Times
- Madhouse
- Firetrap
- Shoe Envy
- Oddbins

• Those retailers expanding include:

- Boux Avenue
- Phase Eight
- Costa
- The Restaurant Group
- Wetherspoon's
- B&M
- Office
- Carphone Warehouse
- Paperchase
- Superdry
- Hotel Chocolate
- Poundland
- Home Bargains

• This is followed by rounds of disposals from:

- Starbucks
- Aldo
- Peacocks (in administration)
- Game (in administration)
- Arcadia
- Ann Summers
- New Look
- Pandora
- Blockbuster

• What are the prospects for significant new players coming through? Far eastern manufacturers seeing some slackening of traditional markets might now decide to test the market in the UK on limited and relatively risk free terms.

• A number of brands are starting to pep themselves up particularly in the coffee and food sector where we are seeing increased refits from Prêt, Costa and Starbucks, and both of the latter are now rolling out a drive-thru format.

• What is the future for middle ranking centres, particularly if fuel prices continue to rise? We will see a retrenchment to better local centres for convenience and everyday items, as well as a limited amount of comparison spend. This would leave a reduced number of trips to the major centres for those serious purchases where the biggest and widest product offer is available.

• No matter the size of centre, all will have to offer a particular USP to get shoppers out from behind their computers or up from the sofa, to spend their limited cash.

• Competition for market share between retailers has been ferocious, but surely restricted consumer expenditure will mean that competition between centres will also result in a clearer distinction between the relative winners and losers.

• Traditionally, anchor stores such as John Lewis attract customers, but in the future, perhaps it will be food markets and a "cosy"

food and drink offer for local centres which will cement that sense of belonging and community feel. Larger centres will need to offer that "super" tenant mix or mainline multiples with bigger stores providing the largest offer both in terms of range and pricing.

• The larger centres which fail to provide that USP will see a contraction with demand falling well short of supply. Many commentators have identified the recycling of redundant space – even the regional centres might not be immune. Who remembers the creation of the Roman Village/Market in Metro Centre when demand failed to live up to expectations after the centre's initial opening in 1986 ?

• Following the advance of multi-channel retailing we are constantly being reminded of the "magic" top 100 towns. The issue is each retailer has a different top 100, admittedly with significant overlap for many. However, take for example the current store lists for both Joules and Whistles who are not dissimilar in terms of the pricing of their offer. The former are in many smaller centres but have limited representation in the larger ones while the complete reverse is true of Whistles. Two very different approaches but who is right?

• Again those smaller middle towns could well suffer, with retailers such as Signet

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As ever, if undertaking development or investment, it's about taking the right advice and picking the right location and options.

having a 500+ shop portfolio, and with many lease expiries coming through following retailers expansion in the late 80's. The prospects for renewal must be questionable, against the backdrop of limited trade and a reinvestment in shop fit now called for.

• In contrast, over the last six months we have visited smaller centres such as Louth, Marlborough and Cirencester which on the face of it appear to have suffered very limited vacancy with healthy high streets. Perhaps the lack of real domination by the multiple retailers and no major shopping centre combined with attractive high streets and local shops, providing quality and differentiation to loyal local catchments have helped them to maintain their position throughout the recession. As a result, rental levels did not get driven to unsustainable levels pre-recession as seen in many centres.

• We continue to see an increasing number of centres where the prime sections of the high street and shopping centres are being maintained but the secondary and tertiary areas are falling away badly. Many have talked about the reuse of redundant retail buildings, however one area recently highlighted is micro demographics where the smaller demographic trade gaps are identified and exploited. They might not produce pre-recession rental levels but it might just secure a letting and an income stream for the future.

• Following the Local Data Company's (LDC) most recent report on retail vacancy in Great Britain, the headlines were not unexpected. The headline rate of vacancy has now reached 14.6% and the trend points to a continued reduction of expenditure on the high street. The wide differential continues to exist between North and South with an average vacancy rate at 17% in the North compared to an average vacancy rate in the South of 11%, with the exception of certain towns such as York and Harrogate, whereas the Midlands have the highest vacancy rate.

Consumer expenditure growth is expected to be the lowest for 40 years at 1.2%, and with the additional failures which have come through since LDC's last research was published the picture is unlikely to improve. As we have already commented each town has its own dynamics, so while some will be able to support development and rental growth in the near future there are others where the recycling of space will be the only option. The cooperation of many stakeholders will be required if we are to find solutions to solve what is a major issue. The Portas review has perhaps started the debate which has been backed up by the LDC Survey. As ever, if undertaking development or investment, it's about taking the right advice and picking the right location and options.

Development

• The Trinity Centre, Leeds is the only major scheme on the horizon and is due to open in just under 12 months time. For those retailers that are looking to serious expansion into good sized units across the major centres in the UK, there will continue to be a lack of product. Those centres where the population is in excess of 100,000 people continue to have a lack of units in excess of 5,000 sq ft within a tightly drawn definition of prime pitch. Reconfiguration, extension, refurbishment and infill development may provide landlords with the opportunity to secure stronger terms from retailers and recover some of the ground lost over the last few years. The main shopping centre openings last year were Westfield Stratford (1.62m sq ft), Trinity Walk, Wakefield (550,000 sq ft) and Parkway, Newbury (295,000 sq ft)

• Town centre development schemes remain under pressure although there have been a few "stirrings" over the last 12 months. Local authorities have woken up to the fact that action now might produce a fruitful return in 3-7 years time – perfect for an economy which should be re-inflating, combined with a rising market.

• Hammerson purchased the Centrale Centre in Croydon and have now been appointed by Royal London Asset Management and Irish Bank Resolution Corporation Assurance Co to work on remodelling and extending the Whitgift Centre. As Westfield were chosen as the Whitgift Foundation's partner it presents a problem – perhaps a "Bull Ring" type partnership is on the horizon ?

• Stanhope continues to work up Hereford and Truro, and in Salisbury they have been chosen as the council's preferred partner. Centros are reworking their plans for Lancaster and Portsmouth. Crawley Borough Council have recently put out a new brief to bring forward the Town Centre North development, with Wilson Bowden pushing forward with pre-letting Barnsley.

• So there is life but many scheme formats are likely to be different from those that came forward in the early millennium. There will certainly be a greater mix of food and beverage, as this sector has continued to perform strongly contrary to general expectations.

London - A National Capital and Global City

• London's main shopping streets have no vacancies, and the streets that do create 'street theatre' through pop-ups and marketing campaigns. This differs from the UK average, where there is a 14.6% vacancy rate and regional pop-ups are usually far from exciting.

• London remains a renowned worldwide location for investment in the property sector, with investors seeking trophy buildings. Despite the double-dip recession, it retains its position within the top six global cities by GDP.

• Retailers choose London over other cities in Europe and the UK as it has a diverse population that should ensure their offer secures the greatest exposure possible.

What is the result of this?

• Residential investment is coming in to London from around the world and pushing existing residents out. As an example, those in Knightsbridge move to Chelsea and Chelsea to Fulham.

• The same position exists in the retail sector where international brands are willing to pay much higher rents and premiums than existing occupiers, who are being forced to relocate to cheaper locations.

Is there an opportunity here?

• There is from an investment and occupational point of view, but at yields of sub 3% there is concern that the peak has been reached.

• On the investment side we have seen values and rents increase in locations such as Dover Street, Conduit Street and Mount Street. The investors/landlords have seen Zone A's increase and the quality of the tenant mix improve.

• For a retailer, if advised correctly, a move to an up and coming area such as Redchurch Street in Shoreditch can gain the occupier the benefit of a low rent but also acts as an investment because value can be attributed to the lease as demand out-stretches supply. The retailer then has the possibility of assigning their lease for a substantial premium, as we have seen along Marylebone High Street.

Regeneration

• There are many development sites within London and we are seeing that buildings are coming to the stage where they need to be demolished or refurbished as the end of their economical use is reached. We have seen Heron Tower push the barrier for the highest specification of offices in The City and there is further demand for similar space in the West End and Mid-town.

• Areas of specific interest are Victoria, where Land Securities are regenerating Victoria Street and in Clerkenwell where Silvertown Properties are expanding Clerkenwell's boundary east with regeneration around Central Street.

• These initiatives will create destination and retail pitches for the future. In Clerkenwell we may see a street similar in characteristics to Westbourne Grove in Notting Hill emerge.

What about London suburbs?

• London suburbs such as Richmond, Kingston and Hampstead remain some of the wealthiest catchments outside of Central London. However, we have seen several retailers close their stores in these areas as rental levels become unsustainable.

• The Westfield centres both in West and East London have had an effect on suburban London locations. Westfield West has taken customers and retailers from good suburban centres, but has had virtually no impact on Central London. Westfield East has regenerated and created a shopping environment in an area where recently there have been few strong retailing town centre pitches. It will be interesting to see how Westfield East effects Bluewater and Thurrock, and after rent-free periods expire if unit turnover will be as frequent as Westfield West.

• It is also felt that retailers may leave suburban London to focus on the more central locations where business is stronger and we are already seeing this with Starbucks, who appear to be consolidating their portfolio in Central London.

What about the restaurant market?

• The restaurant market in Central London remains a law unto its own. Opportunities come and go very quickly and without the correct advice establishing premises in Central London becomes extremely difficult.

• In London there is a vast array of concepts entering and already in the market. Several are extremely successful, many fail and some make the wrong move with a third or fourth opening, which puts the business in jeopardy.

• The premiums that are being paid by restaurant operators are escalating as demand outgrows the supply, although the best opportunities are not necesarily capital driven.

• In Central London there is a real lack of A3 premises and many parties have tried to secure a change of use, but within Westminster the council are hesitant to grant any change of use to protect retail frontages. As a result, operators are looking to change their business model to an A1 offer so that they can roll out their concepts.

• However, for the pure restaurant operators this is not an option and therefore secondary, off pitch locations are being considered and what we have seen is that if a restaurant is successful it can survive in these locations. These operations are destination driven and at the higher end of the quality scale. A restaurant that relies on tourists or passing trade would not survive in these locations.

Who is entering the London market or expanding?

• We have seen the likes of Superdry and Hollister take residence along Regent Street and these are large anchor stores that suit their neighbouring catchment which will soon include Burberry's new store.

• Along Bond Street we have seen Hublot open a shop and the Richard Green Art Gallery relocate and expand onto Bond Street from Dover Street.

• Niche retailers Albam have opened within the Seven Dials village and Italian shoe retailer Superga opened along Neal Street in the Covent Garden area.

Monmouth Steet, WC2 –
Acquisition of Gudrun Sjödén's Central London flagship debut .

• Swedish womenswear and homewares retailer Gudrun Sjödén have acquired a flagship store along Monmouth Street within Shaftesbury Seven Dials village. It took Gudrun Sjödén over 2 years to identify and acquire a suitable flagship premises – this was due to the lack of suitable opportunities and the fact that they had a specific type and style of shop requirement. Chase & Partners acted on their behalf and the store has been trading since Easter 2012. Chase & Partners are solely retained to acquire further stores in Central London and across the UK for Gudrun Sjödén.

• Landlords are having to evolve rapidly to accommodate new concepts and ever faster changing fashion trends. Good retail agents have to be brand identifiers and recognise what customers seek. Landlords must also consider their offer to tenants and a great example is BoxPark in Shoreditch.

Central London Retail property rents ITZA	per sq ft (net)	per sq m (net)
Bond Street	£1,000	£10,764
Sloane Street North	£800	£8,611
Oxford Street	£700	£7,534
Knightsbridge	£650	£6,996
Regent Street	£550	£5,920
Covent Garden (Long Acre)	£550	£5,920
Sloane Square	£450	£4,843
Sloane Street South	£375	£4,036
Mount Street	£325	£3,498
Dover Street	£300	£3,229
Kings Road (Central)	£260	£2,798
Marylebone High Street	£220	£2,368
Seven Dials	£200	£2,152

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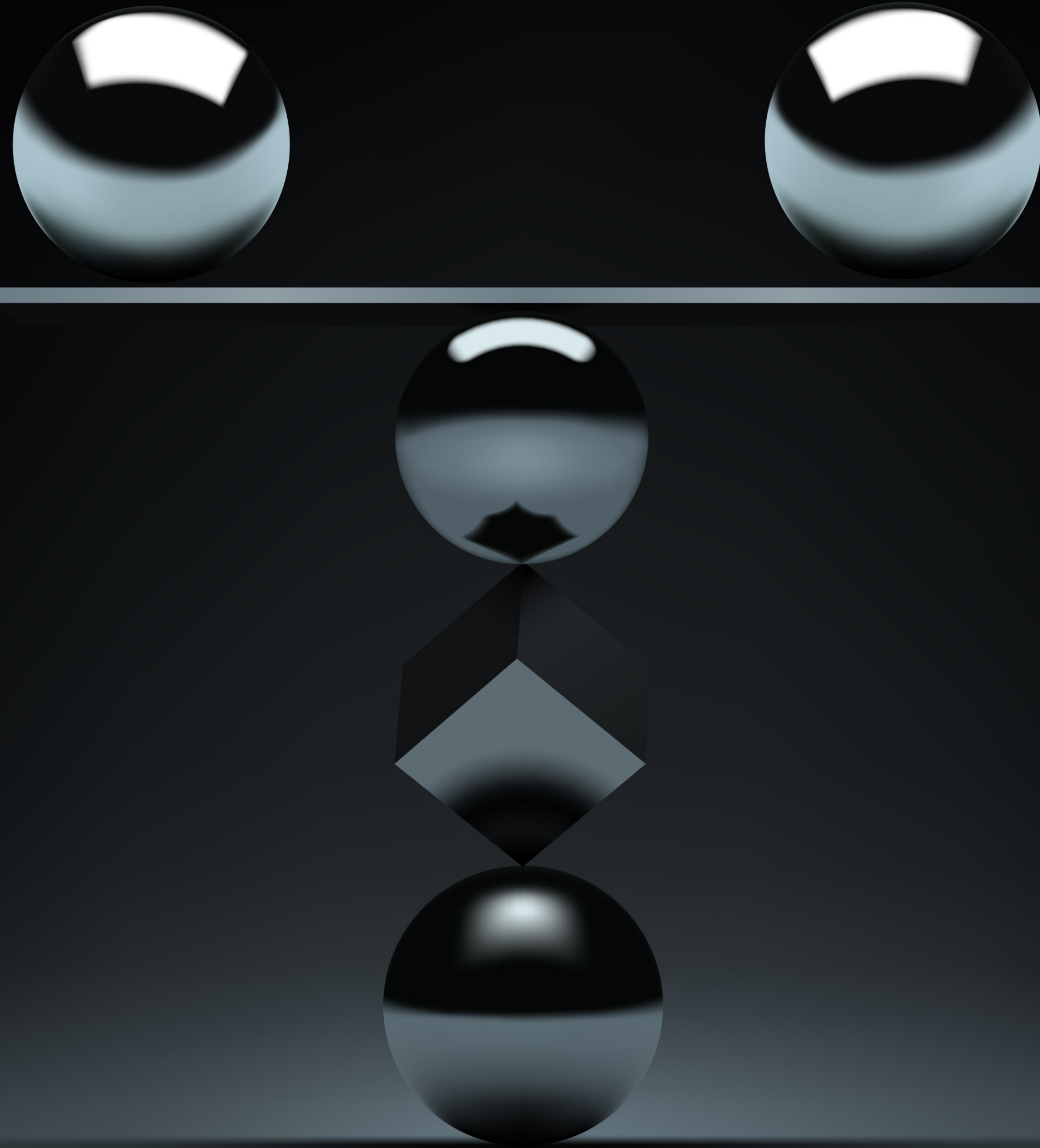
All In The Balance



Turbulent Times... change is inevitable and should pave the way for a brighter future, although for some there will be more pain to come.

If you think the above paragraph refers to retailers, then what about the developers, landlords and financiers? What about the surveyors, architects and property managers who are now ex-directors of failed companies?

Banking arrangements failed when the stress of recession caused huge problems. When such a company fails there is always a property owner left out of pocket - probably a bank, now largely owned by the state. If they lose an occupier, they lose income and market value. A failed property loan following tenant administration becomes a toxic debt, and big losses accrue until a new occupier is found, or maybe a buyer.

In turbulent times landlords can fail, as well as tenants, so strong advice is needed.

The Landlocked

• When a landlord says they 'own the property', does anyone question that? There is often a loan or two, or financing of some sort, and the landlord is only as good as the market value of that financing. When decisions cannot be made because of a loan that goes wrong, then the landlord and tenant relationship can break down. Do tenants take out financial checks on landlords?

Electric Shock

• A long period of declining sales has created a sudden increase in retail activity. The sector duly responded to Best Buy's arrival, but was this a false alarm, or an overdue wake-up call?

• Best Buy entered the market slowly but expanded to eleven stores quickly, and exited suddenly. Their landlords will have been relieved to see Kiddicare take their first steps into the market by "buying" ten of the stores.

• Kesa sold Comet for a headline price of £2 and it will be run hard by the new management, with changes being made and mention of a "soft CVA" in the press. Dixons has changed by combining Currys/PC World where it can but lost its driving force to run Apple. What size and shape will this sector be in by the end of the decade?

Discount Decade

• Fast expansion of the discount retailers has been welcomed by the sector, but as market conditions improve will these occupiers be so desirable to landlords when considering tenant mix? The strongest will surely thrive.

• The sector is seeing its own winners and losers. Some boast about a covenant strength similar to to Tesco, while others have struggled to turn a profit.

• Most of these retailers trade both in-town and out-of-town formats under the same fascia, however some are now differentiating, such as 99p Stores' 'Family Bargains' and Poundworld's 'Discount UK'.

• The race for space, however, remains aggressive and the larger former Focus DIY stores taken by these retailers appear to be trading well.

Administering Administration

• Administrators cannot be appointed easily and property is only one consideration. Is the failure a result of the company's financing or of poor trading?

Newcastle - St. James Retail Park - Letting and Asset Management on behalf of Motcomb Estates

• Government investigations into the regulation of "administrators" was called off and landlords are fighting for some involvement/decision making in the future.

• Pre-packs give landlords no control but CVAs give an element of control. Can an administrator say they have "saved the company" when they licence the running of the business for a period of time and effectively grant an option?

• Allied Carpets have been the latest to fail having recently entered administration for the third time in as many years.

• Landlords need careful advice in this rapidly evolving sector.

Planning Picture

• Out of town surveyors spend a lot of time agreeing conditional deals 'subject to planning'. Retailers who would like to open space cannot under some planning permissions and any change is difficult. In the meantime food retailers can sell what they want. As predicted the mezzanine law changes in 2006 have created a rental divide.

• Widening planning permissions and obtaining mezzanine trading floors becomes more important to allow retailers to open and trade from existing stores.

• Planning policy makers can limit employment in retail. Does it really protect the high street?

Moments in a Month

• Leases are contracts to occupy a property where terms and conditions are signed off once agreed. If they are to change, then it is no surprise that there should be a 'new bargain'. Landlords are being more receptive to tenant approaches, but unilateral changes by one side will understandably invoke a response.

• Peacocks went into administration on 18 January 2012 and agreed to sell some leases to Edinburgh Woollen Mill on 22 February 2012. By the time they had assessed what was possible for sale they had two days in which to sell leases where rents were paid monthly.

• Perhaps administrators should make sure they are appointed on the 1st of the month and sell on the 1st of the month to give themselves time to sell what may be valuable leases.

• Recent case law on the administrator's responsibility to pay rent, or not, falling due before the date of administration makes this more important.

Change of Use

• Retail planning permissions can be changed to facilitate new retail concepts, but changes of use are now being sought for non retail uses, for example discount gyms, where retail warehouses have become obsolete.

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2011 & 2012 Unfolds

QUARTER 2 - 2011

- Comet appoint a new MD.
- Mothercare opens 12 out-of-town stores.
- JJB Sports' landlords voted in favour of its second CVA.
- Asda starts rebranding the 147 store Netto.
- Peacocks are thought to be considering future options including an IPO or sale.
- Poundstretcher returned to profit for the first time in six years.
- Focus DIY enters into administration without a saviour.
- HomeForm file for administration and sell the Sharps Bedrooms business.
- Wren Kitchens steps back from acquisitions for a few months.
- SCS diversify into flooring across the store portfolio.
- DFS expansion continues under the new management.

Market Comment

- Mary Portas is appointed by the Government to report on the future of the high street.
- More retailers include London and the M25 on their requirement lists.
- Big ticket sales struggle but brands are becoming more customer focussed.

QUARTER 3 - 2011

- Comet goes on the market.
- Next/Next home opened its first 56,000 sq ft "department" store in Shoreham, including a garden centre.
- The riots are estimated to have cost retailers £80m in lost sales.
- Floors2Go placed into administration.
- Wickes announce they are to carve up their stores and sublet nearly a third of its floorspace.
- B&Q acquire option to buy 31 Focus stores, while Wickes similarly agrees to take over 13 and B&M 11.
- Home Bargains and B&M widen their search area.
- Habitat placed into administration apart from three stores and the brand is sold to Home Retail Group.
- Asda Living advertise for new stores.
- Best Buy open their 11th store in Enfield.
- Mamas & Papas aim for 30 new stores in a five year expansion plan.
- Halfords takes a multi-channel approach and expands the Autocentre business.
- Hobbycraft reveals a new fascia and requirements.
- The Range announces plans to open a further three stores in 2011 bringing the store count to 59.

Market Comment

- New build and refurbishment costs make Landlord's appraisals difficult to justify based on the return.
- Tenants seem to be able to obtain building/construction quotes at reduced rates.
- Commentators "comment" on Mary Portas and what she might say about out-of-town retail.
- Retailers continue to work hard on reducing costs and managing cash flow.

QUARTER 4 - 2011

- Comet is under offer.
- Following its purchase by Morrisons in Q1, Kiddicare is developing plans to open a nationwide chain of 45,000 sq ft non-food superstores.
- Asda launches a property review on four of its underperforming Asda Living stores.
- Best Buy announces it is to close its 11 big-box stores.
- Top brands thrive in a difficult market e.g. John Lewis.
- Part of the Priceless/Barratt chain is saved following a second administration (first one was in 2009).
- Lloyds Pharmacy's Health Village opens in Brent South Shopping Park.
- Brantano publishes new requirements.
- John Lewis at Home open Tamworth and Chester taking the store count to six.
- DW Sports expands cautiously.
- Steinhoff restructuring continues and new stores are taken.
- Carpetright rolls out new signage.
- Matalan continue to acquire, albeit selectively.

Market Comment

- Retailers keep looking at when leases end and on what terms they can agree now to extend them, against the uncertainty of the lease renewal process.
- Christmas "like for likes" up but doubt cast on how well such a measure accurately reflects profit.
- Tough year ahead is forecast by retailers and commentators but it remains stable.
- Redevelopment and refurbishment plans progress but planning polices in the future remain opaque.
- Mary Portas publishes a 28 point plan to save Britain's high streets, including a Secretary of State "exceptional sign-off" for new out-of-town developments.

QUARTER 1 - 2012

- Comet sale by Kesa to OpCapita completes for £2 plus a "dowry" from Kesa.
- Peacocks enters into administration and is partially rescued by Edinburgh Woollen Mill.
- Tesco reports first profit alert in 20 years and is set to exit leases of all 13 Home Plus stores.
- Home Store + More (Home Retail Group) closures announced.
- KPMG appointed as Dreams' new corporate advisers.
- Home Retail Group appoint new MD following fall in like for like sales .
- Kiddicare acquires 10 Best Buy stores for a large reverse premium.
- Next announce potential for 19 out of town department stores similar to Shoreham over four years.
- Oxylane unveils plans for first sports village incorporating its own Decathlon brand alongside sports and leisure facilities.
- JD Sports buys Blacks after a pre-pack administration.
- Pets at Home finally open in Watford and secure other key locations as expansion continues under a new CEO.
- Smyths Toys open their 31st store.
- Wickes places 12 downsizes under offer and targets smaller stores.
- B&Q gains plaudits as it negotiates its way out of the downturn and revamps its estate over two years.
- Dunelm builds its portfolio and profits.
- Sun Capital completes the purchase of American Golf.
- Mothercare's new MD quickly announces changes.

Market Comment

- Retail administration up 15% throughout the retail sector but out-of-town demand maintains stable vacancy rates overall.
- Pre-pack legislation changes abandoned by the Government.
- Portas plan revealed by the Government, but no special sign-off on out-of-town developments.
- EPC legislation comes into effect from 6 April 2012.
- Landlords await the detail in an 'open letter' from retailers requesting monthly rents on existing leases.
- Asset management remains difficult as the rental tone on many parks has fallen.
- Affordability throughout portfolios is assessed as increase in Uniform Business Rates looms.
- There will be opportunities for clear thinking landlords working with retailers who they believe will survive and thrive.

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York - Foss Island Retail Park – Asset management on behalf of Threadneedle Investments.

More Mergers

• Retailers will keep an eye on their competitors and peers, and will continue to question their longevity.

• Those with strong balance sheets that have access to finance will be able to move quickly.

• Will the acquisitive companies wait for corporate failure before they strike?

Case for Space

• Retailers are always assessing the type of space they need to trade from, how big is it and where it should be.

• Downsizes were announced by Wickes with a reported 1.4million sq ft being placed on the market at the end of last year. Our earlier comments on securing the necessary planning permission will no doubt apply. Other retailers who have sought to downsize have not been able to afford the costs and Wickes have the same issues.

• In a tenant's market, landlords are constantly seeking to create the right space in order to attract the best retailers. The market is all about occupation and the space has to be right. The market stands still when the amount of disposals is matched by the amount of space required. The case for new space continues to be difficult, but it is stable.

• The Marks & Spencer Flagship store at Cheshire Oaks opens this year, and they are assessing where else they should be taking such stores and how big they should be.

• Next opened a new concept store in Shoreham, including a garden centre, as part of the full offer providing circa 56,000 sq ft. A reported 19 more locations are being sought.

• Retailers such as Staples continue to assess existing space within their portfolios.

Etail to Retail

• Etailers who have acquired retail units in the last two years include Wren Kitchens and Oak Furniture Land.

• All the major retailers have websites but not all retailers have transactional websites that sell everything, such as Homesense.

Outdoor Activities

• Decathlon's expansion continues with a requirement for sports centres adjoining the shops e.g. Birmingham, Junction 9, M6.

• Go Outdoors have become the dominant player in retail warehouses but have competition, in some areas, from Blacks and their new owner JD Sports.

Ashford - Warren Retail Park – Letting to Family Bargains on behalf of Brookhouse Group.

• JJB Sports survived a second CVA and sold part of the business to US company Dick's Sporting Goods.

• SportsDirect.Com continue to expand and build the business but like to trial new locations before signing institutional leases.

Decisions, Decisions and Renegotiations

• When is a deal not a deal? Meeting, handshake, lawyers instructed or when contracts signed?

• Generally landlords are now in a better position to make decisions but arguably tenants are in a worse position. Both parties can, however, look at decisions again if there are delays.

• When a retailer stops to look at a retail park to forecast what the tenant fascias will be in two years time, decisions will inevitably be put on hold.

• Ecommerce continues to affect locational requirements.

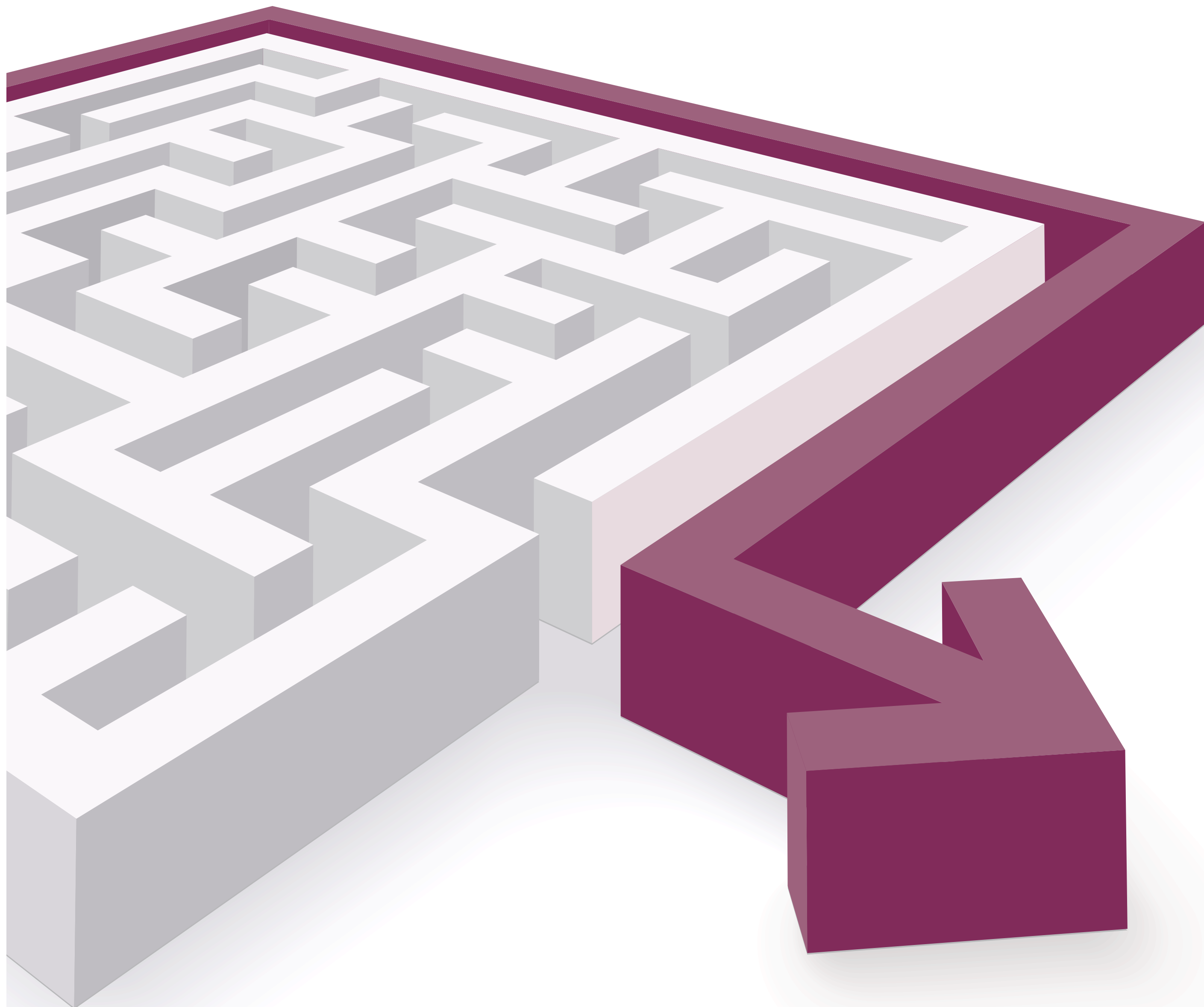
• If legal documentation takes too long to sign then both parties can change their mind. There is evidence of retailers withdrawing from deals close to exchange, or renegotiating on the cusp of exchange.

Bridgend – Picton Court Retail Park – Asset management on behalf of J.Leon & Co.

C&P Spring Retail Report 2012

In-Town Investment

Accesible Assets



The long-awaited and expected increase in investment activity appears to have stalled once again in 2012. The completion of a number of transactions at the end of 2011 seemed to sound the 2012 starting gun for a return to more activity, but Q1 has seen a reduction in transactions, in both the high street and shopping centres.

It is difficult to see 2012 being a golden year for investment. Only nine notable shopping centre transactions have completed so far this year, as opposed to some 15 completions in the first quarter of 2011. These sales have included:

- Hermes £159 million purchase of schemes in Belfast, Guildford and Tunbridge Wells from Westfield.

- RREEF securing Marriots Walk, Witney at 6.10%.

- Land Securities agreeing terms to sell St John's, Liverpool to InfraRed Capital Partners for £76.5 million.

Should this limited activity give us cause for concern for the rest of the year? Perhaps not. Investors remain attracted to retail property as an asset class but the retreat to prime is more evident than ever, as retailing in the UK continues to face a challenging time. Foreign investors, institutions and well financed property companies continue to search for opportunities to invest but as owners hold

Shop Property Yields

%	Dec 2006	Dec 2007	April 2008	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011	Sept 2011	Mar 2012
Prime High Street	3.75 - 4.25	4.75 - 5.50	5.00 - 5.75	6.00 - 6.50	5.25 - 6.00	5.50	5.00	5.00	4.75	4.50	4.50	4.50
Secondary High Street	5.00 - 5.75	6.00 - 7.00	6.50 - 9.00	8.00 +	8.00 +	10.00 +	10.00 +	10.00 +	9.00+	8.00+	8.00+	8.00+
Prime Shopping Centre	4.00 - 5.00	5.00 - 6.00	5.50 - 6.50	6.50 - 7.50	7.00	7.00	6.00	6.00	6.00	5.50 - 6.50	5.50 - 6.50	5.50 - 6.50
Secondary Shopping Centre	5.00 - 6.00	6.00 - 7.50	6.25 - 8.00	9.00+	9.00 +	7.50 +	9.00+	9.00+	9.00+	8.00 +	8.00 +	8.00 +

on to their best assets, there have been few opportunities for this money to find a home. We are, therefore, quite likely to see further sub 3% yield transactions completing in central London – record yields being required to secure the very best assets. When prime assets do become available there is strong investor competition, especially in the South-East and in attractive cathedral towns and strong regional centres such as Guildford, York, Salisbury and Chester.

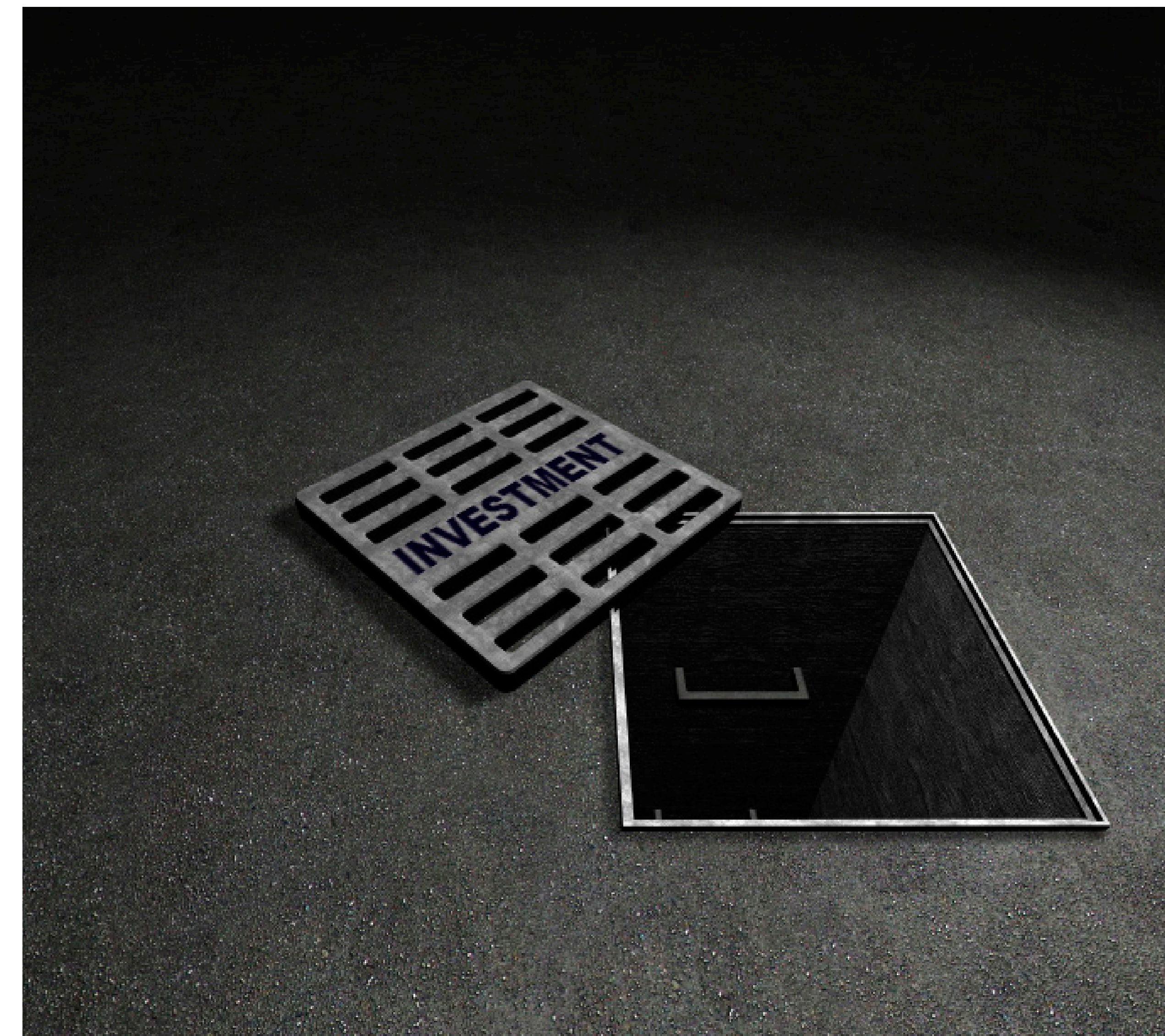
Traditional institutional investors including Legal & General, La Salle Investment Management, Wereldhave and Hermes have all been active in recent months in the shopping centre arena, while others such as Land Securities, Prudential and AVIVA continue to seek suitable opportunities. Land Securities sold Corby town centre for £70 million last October and with the sale of St John's, Liverpool, appear well positioned to secure a major purchase with mixed use development potential. Likewise, Legal & General are also seeking opportunities where they can add significant value to assets by extending and developing new space.

While secondary retail remains under pressure with yields continuing to move out, as we predicted last Spring, some investors have taken the opportunity to seek out those sensibly priced secondary assets that do offer potential. InfraRed Capital Partners in particular have secured not only St John's, Liverpool but also The Galleries, Bristol and are reported to be in discussion with Capital & Regional to buy The Mall, Norwich. New River Retail and La Salle Invetment Management have similarly shown an appetite for sensibly priced assets that offer real and deliverable opportunities.

As ever, pricing remains the key. Many shopping centres remain available having failed to sell. This is especially the case in more secondary towns in the regions, where the threat is not only of rental decline but also increasing vacancy rates as retailers retrench with a resultant fall in capital values. Many retail assets, both shopping centres and standard units, remain over valued as landlords seek to maintain their loan to value position – re-pricing and re-valuation cannot be put off forever. There is likely to be pressure for a more realistic approach to be forced this year by the banks, who are themselves under increasing pressure to reduce their property loan books, especially with the introduction of 'Slotting' later this year.

We have already seen more high profile casualties as the UK banks and the Republic of Ireland's NAMA step up their bid to reduce their exposure to commercial property. Many under-capitalised owners have already dropped the baton as the banks begin pursuit. This positive action should encourage further market activity. The £100 million "Chrome" Portfolio was recently purchased from NAMA by the Pears Group and Development Securities and we expect to see further portfolios come on to the market.

However, investors will be very focused on just what is being offered by the banks. While many assets may seem to offer good value, the true picture will only emerge when



tenant and lease profiles are examined in detail and rental tone, break clauses, rent reductions, personal concessions, service charge shortfalls and void rates provisions are revealed. What may appear to offer good value could be a potential liability within a very short time frame. During the next twelve months "caveat emptor" will be all important. Will we finally see some of the failing first generation shopping centres demolished as they are seen to be obsolete?

The strength of the major regional retail centres appears certain to continue, especially as retailers rationalise. Perhaps the best indicator of market sentiment will be revealed by the sale of the London & Stamford and British Land's stakes in Meadowhall, Sheffield.

Limited market activity makes it difficult to assess with any degree of accuracy precisely where prime yields are at this time. It is apparent, however, that the market has not moved greatly in the last twelve months and it is unlikely that we will see much movement within the next year, although prime high street yields have perhaps drifted out to 4.75% in Q1. Hopefully we will see some further market evidence when the banks filter more stock on to the market and when sales are completed on recent sale stock such as Meadowhall and Grosvenor's Festival Place in Basingstoke.

As for secondary retail property, it will be a marathon for those owners as they try to turn around difficult situations with yields continuing to move out in the short term, as prime continues to sprint ahead.

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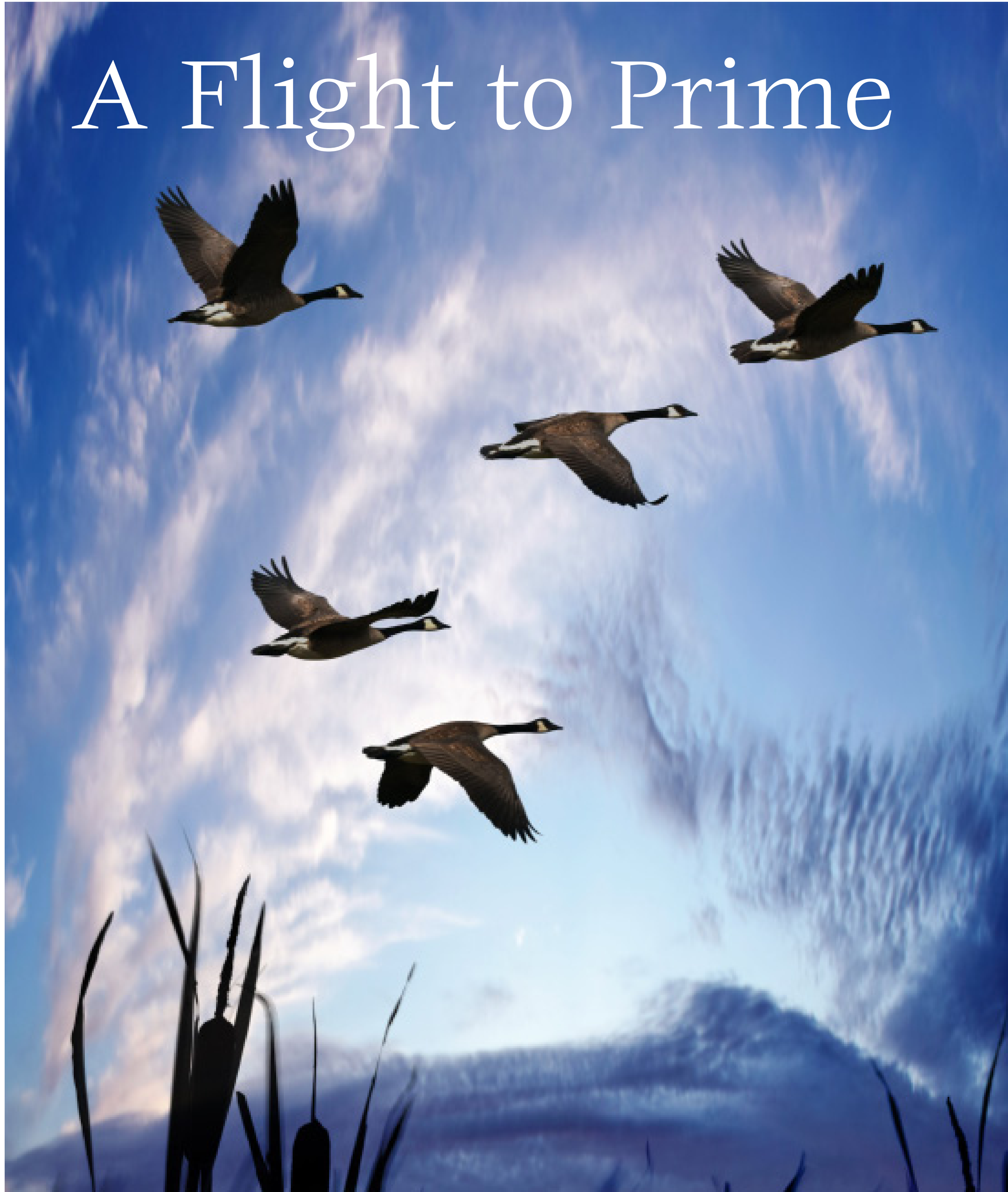
Spring Retail Report 2012

Out-of-Town Investment



There had been increased investment activity in 2010 but 2011 saw a reversal of this trend. The total value of out-of-town retail transactions reduced by approximately one third against the previous year.

Institutional investors have dominated the market over the last 12 months. There has been a greater weight of money chasing this particular asset class but the number of transactions has reduced reflecting a 'flight to prime' and the lack of such property coming to the market. On the whole, yields have held up in respect of out-of-town retail investment property, although in Q1 of 2012, there are some signs that pricing is moving out, even for prime - not significantly, but moving out nonetheless.

A significant amount of the stock that was brought to the market has struggled, or indeed failed, to sell and has been withdrawn. This was largely down to overly optimistic price expectations, but also short unexpired lease terms together with concern over occupier covenants and all that goes with this. Yields have clearly moved out and continue to move out for anything other than prime property.

Who has been buying?

Despite reduced activity generally, The Crown Estate has continued to be extremely active in this sector, continuing with its diversification strategy. According to our records, The Crown Estate, which acquired £250 million of out-of-town retail property in 2010, has purchased further out-of-town retail investment property with a combined value of £304 million in 2011, adding to its portfolio the Aplsey Mills Retail Park, Hemel Hempstead (£35.86 million / 5.75%), Ocean Retail Park, Portsmouth (£60.85

Investment acquisition of Humberston Country Club, let to Virgin Active Limited, on behalf of a private investor.

million / 5.87%), The Morfa Shopping Park, Swansea (£80.60 million / 5.78%), Aylesford Retail Park, Maidstone (£70.6 million / 5.87%) and finally forward funded the Milton Keynes Shopping Park in Milton Keynes (£56.46 million / 5.45%). The acquisition of the Morfa Shopping Park in Swansea represented the largest single out-of-town retail investment transaction during the year. The Crown Estate has now invested a total of approximately £550 million in this sector over the last two years.

Other notable transactions in the last 12 months include Orchard Street Investment Management's purchase of Cardiff Bay Retail Park, Cardiff (£54.5m/6.25%) backed up more recently with the acquisition of Priory Fields Retail Park, Taunton (£27.24m/6.75%) and Aviva's purchase of Central 12 Shopping Park, Southport (£48.75m/6.62%).

What does the future hold?

Out-of-town retail property has, for some time, been favoured and is a successful investment asset class, but with weak consumer spending, the impact of e-tailing and the ever increasing competition from the foodstore operators, what does the future hold?

Tenant demand is stable, although weak, with one or two exceptions, of course. There is limited demand for new space even in new markets and vacancy rates are high on existing schemes, following recent tenant failures and where occupiers are seeking to dispose of unwanted space. Although good quality properties have, on the whole, been taken up quite quickly, the vacancy rate situation could soon worsen with a number of occupiers on the "watch" list.

What is Prime?

It is very much against this backdrop that there has been the flight to prime with criteria that include:

- A marketable lot size of £5-25 million.
- Dominant/strong trading profile.
- Rents below £20.00 per sq ft, thereby giving more realistic prospects for future rental growth.
- Preferably an open A1 planning permission.
- Identifiable and achievable asset management opportunities.
- Strong covenants/brands.
- Long unexpired terms without breaks.

Barrow in Furness – 2011 – Acquisition of a Retail and Leisure Development let to B&Q and DW Sports on behalf of PHF Investments Ltd.

Retail Warehouse Yields

%	Dec 2006	Dec 2007	April 2008	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011	Sept 2011	Mar 2012
Shopping Parks	4.25 - 4.75	4.75 - 5.00	5.00 - 5.25	6.75 - 7.00	6.75 - 7.00	6.50 - 7.00	6.00	6.00	6.00	5.00 - 5.25	5.25	5.25 - 5.50
Open A1 Retail Parks	4.25 - 5.00	5.25 - 5.50	5.25 - 5.75	7.00 - 7.50	7.00 - 7.50	7.00 - 7.25	5.75	5.50 - 5.75	5.00 - 5.50	5.25 - 6.00	5.25 - 6.00	5.50 - 6.50
Bulky Goods Retail Parks	5.00 - 5.75	5.75 - 6.25	5.75 - 6.75	8.00 - 9.00	9.00	8.00 - 9.00	6.50 - 7.00	5.75 - 6.25	5.75 - 6.25	5.75 - 6.50	5.75 - 6.50	6.00 - 7.00
Solus Stores	4.75 - 5.25	6.00 +	6.00 +	8.50+	8.75	8.50 - 9.00	7.00+	6.00 - 7.00	6.00 - 7.00	6.50 +	6.25 +	6.25 +

The ideal rarely exists but these criteria are fundamental and matching most, if not all, is the key to successful investment in the current market, where tenant failure can leave investment performance in tatters with:

- Long voids and empty rates.
- Security costs.
- Costs of repair and maintenance.
- A service charge shortfall.
- High costs of re-letting including unit refurbishment, premiums and rent free periods, often reflecting the equivalent to a minimum of two years' rent.

With regard to the latter, there is the very serious difficulty of maintaining rental levels let alone achieving rental growth and a capital value increase.

It's all about Pricing...

Activity in the out-of-town retail investment sector will continue to be centred on prime property with attributes as above and yields for property of this nature are likely to hold up. Secondary property will struggle and there will be no market for much of it, although it is all about pricing and there will be some excellent opportunities to be found.

Out-of-town retail property remains a very attractive and sought after asset class and its prospects remain strong for the long term. In the short term, owners will have to work hard to retain full occupancy and improve or indeed maintain capital and rental values but of course property investment is, or at least should be, a long term consideration.

Barrow in Furness – 2011 – Acquisition of a Retail and Leisure Development let to B&Q and DW Sports on behalf of PHF Investments Ltd.

C&P Spring Retail Report 2012

Professional

To Fit Or Not To Fit –That Is The Question

Now that the supply of new retail developments has reduced to a trickle, the vast majority of retail warehouse and shop lettings relate to second hand stock. In many cases these units are left by their previous occupants in a fitted or semi-fitted state, as opposed to the traditional developer's shell specification.

This leaves the landlord with a potential problem, particularly landlords of retail parks, where any new letting is likely to have an impact on rental tone, affecting both future rent reviews and current capital values.

The issue is whether there is any benefit to an incoming tenant in taking a fitted unit. In the past, the high quality of shopfitting of incoming tenants would mean that most would not want this compromised by a previous tenant's shopfitting. They would wish to start with a blank canvas that is a developer's shell. The need to remove existing fittings would actually add to their costs.

However, the recession has seen an increasing number of new retailers from the discount sector who are keen to save costs by adapting existing shopfitting, in particular items such as suspended ceilings, lighting, heating and ventilation systems, wall fitting and racking.

A rent review surveyor, acting for a tenant on a retail park, and looking at the evidence of a letting on this basis will argue that a fitted store in these circumstances would command a premium rental bid reflecting savings in capital expenditure. A headline rent of £20.00 per sq ft achieved on a fitted unit might be worth only the equivalent of £18.00 per sq ft on the normal shell basis of review, after the savings on fitting out costs have been amortised in the analysis.

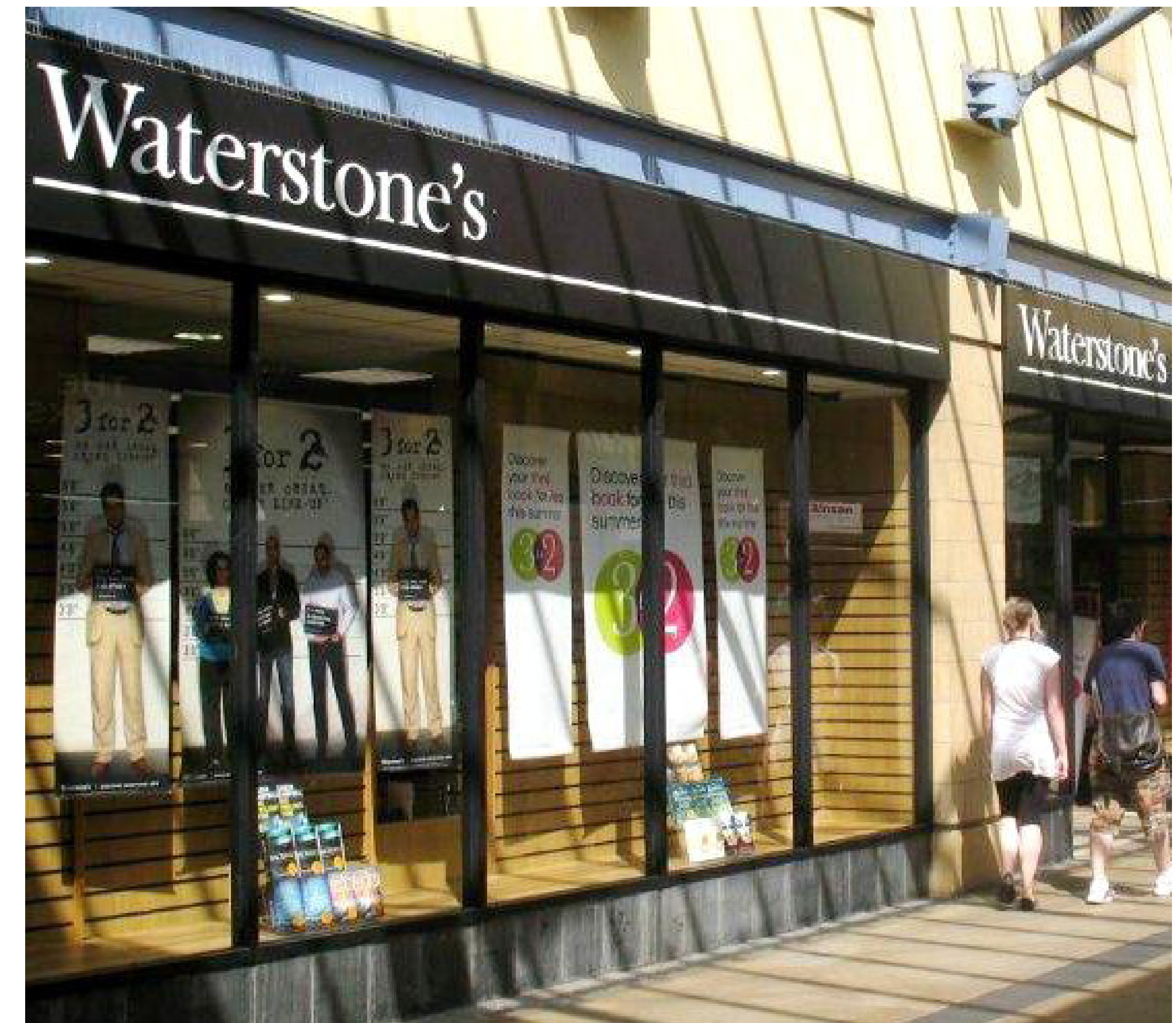
London, Canada Water, Decathalon - Rent review advice given to Investec

So what should the prudent landlord do in these circumstances? For the evidence to truly stand up to scrutiny there are two options:

1. The landlord could strip the unit back to a shell specification at its own cost prior to re-letting to ensure a clean shell specification letting that cannot be challenged. However, this might be considered a waste of money and, in these eco-friendly times, a waste of valuable resources. Furthermore, it may be that the only tenant bidding for the property insists on the property being left in a fitted state.

2. When the unit is let in a fitted state the landlord would be prudent to accurately document the specification and preferably have it costed in terms of its second hand value. By amortising this second hand value over as long a period as possible, the landlord may minimise the impact of the increased value due to the fitted nature of the unit.

Trafford, B&Q - Rent review advice and referral for expert determination on behalf of Peel Holdings



Lancaster, Marketgate shopping Centre - Rent review advice given to Allied (Lancaster) Ltd.

Another issue to be wary of from the landlord's point is the following scenario:

• A unit is left in a fitted state.

• A prospective tenant declares that it does not want to make use of fittings and seeks and gains compensation for the cost of their removal.

• However, after taking possession, the incoming tenant does actually make use of some or all of the fittings.

In such cases it is imperative that the landlord insist that the tenant remove fittings through legal documentation. Apart from the obvious advantage of ensuring that a tenant does not get something for nothing, it will ensure the evidence is "clean evidence" for use on future reviews and renewals.

Monthly Rents... No Big Deal

Since the start of the property recession in 2007 we have witnessed an increasing clamour from retailers for the payment of one of their major outgoings, namely rent, to be on a monthly in advance basis. Their claim is that payment quarterly in advance is an archaic system dating from the Middle Ages, when it was simply not possible to collect rent on the more regular basis given that the fastest method of transport was by horse!

But has this whole issue been overblown? In terms of costs there is a negligible difference in terms of the interest saved by retailers, which is probably wholly absorbed by the additional administration costs incurred by both landlord and tenant as a result of the move to monthly payments. In times of high interest rates, however, that may not be the case.

The justification for monthly rents on the grounds of smoothing cash flow has far greater merit. A large retail chain with hundreds, or even thousands, of properties will have a huge financial outlay once every three months. For a struggling retailer the requirement to meet this huge outgoing across the portfolio could be the final straw that leads to the collapse of the business.

However, on average rent constitutes only 7.5% of a retailer's turnover and more pressing burdens affecting the success or failure of the business can be the demands of suppliers, without whom the retailer has no goods to sell. Witness Game's recent demise brought about by the lack of confidence in the company from suppliers as much as the banks.

On this point it is perhaps pertinent that a long time before the call for monthly rents arose from retailers, it was the retailers themselves, starting with the legendary Tesco founder, Sir Jack Cohen, who realised that suppliers could be "persuaded" to accept payment for goods 30 days after they had been delivered.

Payment terms to suppliers, otherwise known as "free credit" have now been extended to up to 90 days. Those same retailers who consider it totally unfair for landlords to have three month's rent earning interest, are perfectly happy to demand similar concessions from their suppliers. Pots and kettles come to mind.

The equitable solution for large retail chains could be to maintain the quarterly basis but to agree differing payment dates with their landlords, so that one third of the portfolio pay a quarter rent in January, and the other thirds in February and March respectively, smoothing out cash flow throughout the portfolio.

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This also may assist a landlord in smoothing his own cash flow throughout his own portfolio, although receiving rental income at a different time from when loan payments may need to be made could be a problem.

The other inequitable aspect of this demand for monthly rents is that it was initially only accepted by landlords where tenants were struggling financially. Why should a sound business with a good payment record have to pay quarterly, when the company with a poor payment record on the verge of collapse receives the benefit of monthly payments?

From a legal point of view it is essential that any switch to monthly rents is documented correctly, whether by way of side letter or deed of variation. In particular, the following issues need to be addressed:

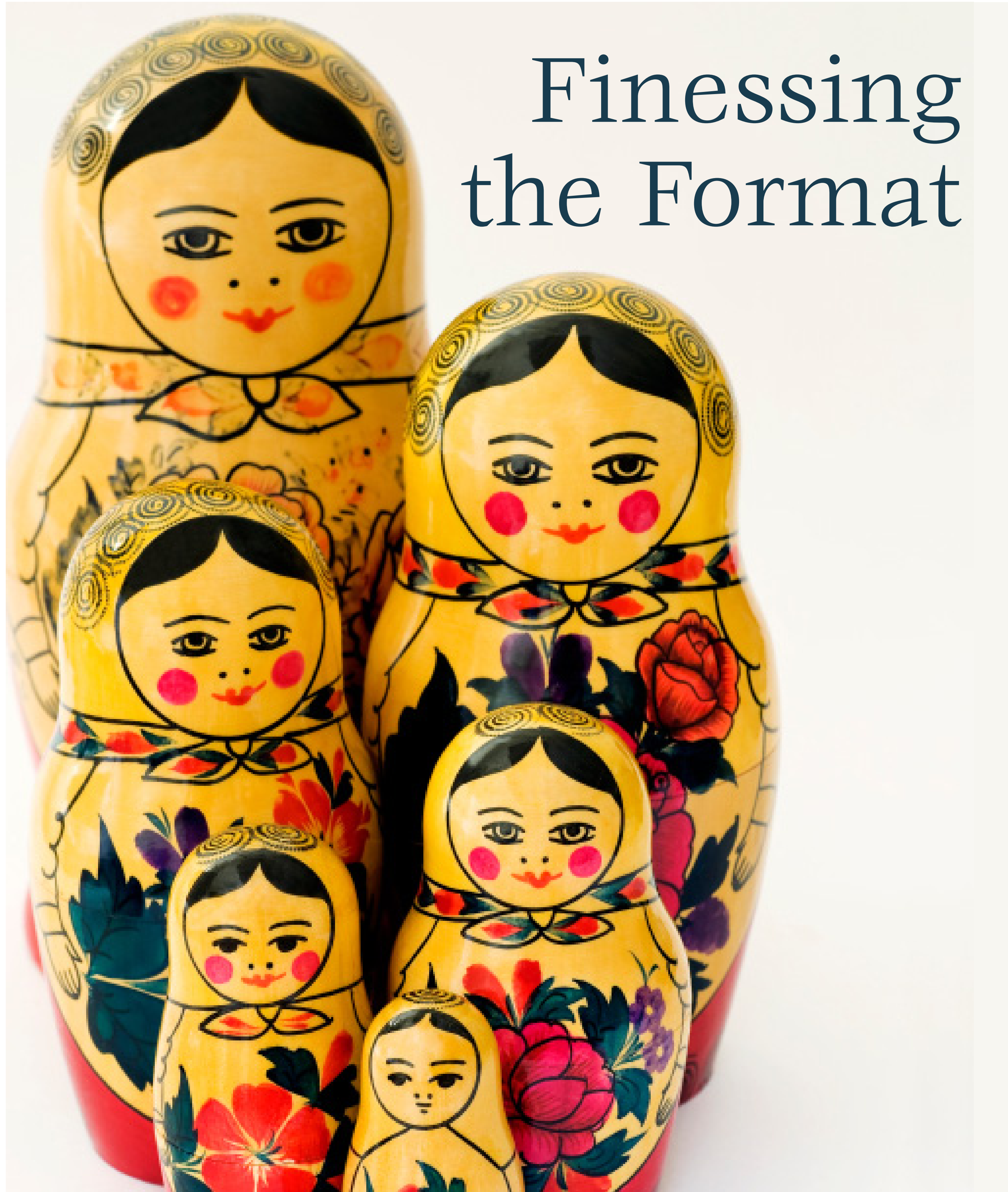
- For how long will the concession apply?
- Should it be personal to the current tenant or run with the lease?
- If there are previous tenants and/or guarantors, a deed of variation to which they also are a party must be signed to avoid them escaping liability under the lease.
- Care must be taken as to how any change may affect other clauses within the lease, particularly review clauses and implementation of break clauses.
- Superior landlord or lender's consent may be required.
- Provision for a return to a quarterly rent basis must be made in the event of a tenant's significant breach of lease terms, in particular failure to pay rent on the due dates.

Although monthly rents have supposedly been a burning issue of the last few years, in reality any savings to retailers will be absorbed by increased transactional and auditing costs.

Compared to upward-only rent review clauses, empty rates liabilities, and SDLT on commercial leases, all of which have a much heavier burden on a tenant's business, monthly rents are, in reality, no big deal.

C&P Spring Retail Report 2012

Superstores and Supermarkets



Finessing the Format

Despite suggestions of saturation from some quarters, this is one property sector which has continued to perform with demand outstripping supply. Retailers are fit and promoting strong expansion plans while investors retain a healthy appetite for this type of property and wish to digest more, with its bond-type qualities.

Any doubts about the market's ongoing potential for further expansion is certainly not shared by Malcolm Walker, the founder of the Iceland chain who, at the beginning of March successfully led a £1.55 billion management buyout. Iceland has 800 shops with a workforce of 23,000. At a time when capital and debt is scarce, £860 million of senior debt was provided by Credit Suisse, Deutsch Bank, HSBC, Nomura and RBS as well as a £250 million vendor loan note to Walker and his buyout team.

As to where Iceland goes from this point, the new Chairman and Chief Executive does not seem to have any concerns about the potential for further growth. As an example, in Merseyside Iceland have 35 units but in Sheffield they only have two. It is clear that this group sees a number of gaps in representation which they can fill. Not surprisingly, the first action undertaken by the new team was to confirm their requirement for 35 new shops within the next 12 months.

Supermarket share

	12 weeks to 21 March 2010		12 weeks to 20 March 2011		Change	12 weeks to 20 March 2012		Change
	£000s	%	£000s	%	%	£000s	%	%
Total Till Roll	28,802,090		30,504,610		2.4	30,189,960		2.9
Total Grocers	22,197,440	100	22,785,540	100	2.6	22,445,730	100.0	4.0
Total Multiples	21,670,590	97.6	22,255,110	97.7	2.7	21,938,410	97.8	4.1
Tesco	6,717,504	30.3	6,874,633	30.2	2.3	6,872,643	30.2	2.7
Asda	3,804,487	17.1	3,884,246	17.0	2.1	3,886,271	17.9	7.8
Total Asda						4,036,016	17.9	3.8
Sainsbury's	3,607,663	16.3	3,717,831	16.3	3.1	3,717,854	16.6	4.1
Morrisons	2,687,725	12.1	2,770,446	12.2	3.1	2,770,065	12.3	3.4
Co-operative	1,289,303	5.8	1,530,921	6.7	18.7	1,530,922	6.5	-1.2
Somerfield	370,668	1.7	12,489	0.1	-96.6	12,489	0.0	-93.6
Waitrose	917,659	4.1	971,421	4.3	5.9	971,537	4.4	6.7
Iceland	405,620	1.8	422,648	1.9	4.2	422,653	2.0	10.2
Aldi	615,739	2.8	706,645	3.1	14.8	473,328	2.6	28.5
Lidl	506,003	2.3	567,121	2.5	12.1	567,309	2.7	10.7
Netto	154,327	0.7	149,758	0.7	-3.0	149,745	0.0	-100.0
Farmfoods	126,164	0.6	140,888	0.6	11.7	140,883	0.6	-0.8
Other Multiples	467,728	2.1	506,062	2.2	8.2	422,710	1.9	7.7
Symbols & Independants	526,851	2.4	530,435	2.3	0.7			

Source: Kantar Worldpanel 2012

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Finding the gap is now the holy grail for most of the food retailers. Tesco have the hardest job given their extensive coverage. Even though they now have formats ranging in size between 1,000 sq ft and 140,000 sq ft they are finding it difficult to expand without cannibalising trade from their existing stores, a problem which is not so acute for their competitors.

Surprisingly, some commentators have suggested that Waitrose are vulnerable given the austerity measures now being felt by the consumer. We do not agree with this observation and are of the opinion that Waitrose are well positioned to take advantage of demand for higher quality food sales in locations which demographically suit the Waitrose customer base. They have continued to expand their smaller convenience stores within the London area and are finding good opportunities for their standard format store between 25,000 sq ft and 40,000 sq ft in increasingly far-flung locations. A good example is Helensburgh located north of Greenock and Dumbarton and just outside Loch Lomond and the Trossachs National Park.

Over the past two years Sainsburys have once again focused on the benefit of a strong in-house property team which has expanded considerably. It is, perhaps, no coincidence that their expansion has begun to eclipse their larger rival, Tesco, who have held the honours for a number of years. Its fourth quarter 2011 sales growth has been published demonstrating that Sainsburys continues to win market share with 1.4 million sq ft of new space opened in the last 12 months.

However, Sainsburys will not have it all their own way with Morrisons gaining market share, especially outside their heartland of the North, as the South East and South West regions are a focus for their expansion. They have also recently decided to roll out their convenience 'M-Local' stores of approximately 4,000 sq ft allowing them to intercept the customer base of their rivals and compete with the convenience offer from Tesco, Sainsbury's and Waitrose. Although Morrisons have non-food ranges, their focus is on food sales and consequently their margins can be at the lower end. Their earning performance has been solid and their potential to attract new customers continues to keep their competitors on their toes. Margins on food are in the region of 3% to 5% but on non food items are almost double at between 7% and 8%.

Supermarket Statistics

	No. UK Stores	Total sales area	Opened in the last 12 months	The next 12 months	UK sales % increase	Profit % increase
Tesco (as of 18/04/12)	2715	36.7m sq ft		UK net space growth to reduce by 38% with renewed focus on a 'Refresh' programme in 2012/2013.	£44.6 bn 5.5% increase (31/05/2011)	£2.5 bn 3.8% increase (31/05/2011)
Sainsbury's (as of 17/03/12)	1000	17.75m sq ft	Achieved target 7.3% gross space growth in the year; 1.4m sq ft of which 170,000 sq ft was added in the 10 weeks to 17 March 2012.		4.5% (like for like sales for the year)	£354m 6.6% increase (01/10/2011)
Morrisons (as of 29/1/12)	475	12.9m sq ft	37 new supermarkets opened.	2012/13 expect to add a further 700,000 sq ft	£17.7bn 7%	£974m
Asda (Walmart) (as of 23/01/12)	500+			Announced plans to open 25 new stores and 3 depots this year		
Co-Op (as of 31/12/11)	4,800 (retail trading outlets}		Refitted 421 stores, opened 32 stores and acquired Scottish Convenience chain David Sands.		£13.3bn 1% increase	Operating profit: £585m 0.5% increse
M&S (as of 9/6/11)	703		700,000 sq ft of retail space has been added for development	November 2010: committed to opening c.3% of space within the UK every year until 2015/16.	£9.7bn 4.2% increase	£714.3m 12.9% increase
Waitrose (as of 29/1/11)	274		29 branches opened; selling space increased by 8.7%.	A new distribution centre in Leyland will open in 2013 to service to planned expansion in the North of England & Scotland	£5.07bn 8.6% increase	Operating Profit: £260.6m 5.2% decrease

Food Store Requirements in Size Terms*

	Location	Min Area (sq ft)	Max Area (sq ft)
Tesco Extra	Strategic	70,000	140,000
Tesco	Standard	25,000	70,000
Tesco Metro	In Town	8,000	15,000
Teco Express	Convenience	1,000	4,500
Sainsbury's	Strategic / Standard	40,000	140,000
Sainsbury's Local	Convenience	1,000	4,500
Morrisons	Strategic	25,000	83,000
Morrisons Local	Convenience	1,000	4,000
Asda	Strategic / Standard	10,000	130,000
Co-Op	Convenience	2,000	18,000
M&S	Mainline	30,000	150,000
M&S Simply Food	Convenience	7,000	15,000
Waitrose	Mainline	15,000	40,000
Little Waitrose	Convenience	3,500	5,500
Waitrose Food & Home	Trials	25,000	35,000

* figures are correct as of 11 April 2012

TESCO
Waitrose
ALDI
LIDL
MARKS & SPENCER SIMPLY FOOD
farmfoods
THE FROZEN FOOD SPECIALISTS
ASDA
Sainsbury's
The co-operative
Iceland
M MORRISONS

Asda also have smaller store formats which range between 10,000 sq ft and 40,000 sq ft, again helping them take advantage of infill opportunities. However, despite the pedigree of their Wal-Mart parent and ability to sell a wide range of both food and non-food goods there has been no evidence of any real expansion over and above their standard format store of 65,000 sq ft which is primarily food sales. The hypermarket format of over 100,000 sq ft has yet to emerge as a serious operation.

Nevertheless, Asda have gained ground at the expense of Tesco. Their market share now stands at 17.9% up from 17.0% 12 months ago. This is an all time record for Asda and with performance now showing year on year growth of 7.8% this group could be the sleeping giant.

The only blot on the horizon is the Co-Op who, following the acquisition of 800 Somerfield stores, continue to struggle against their competitors with sales falling last year. The move towards smaller convenience formats in smaller catchments by the majors is undoubtedly having an impact and suggests that cannibalisation is a real threat, the key being that each trader needs to feed off its competitors, not itself.

One factor that Iceland have in common with the rest of their large store competitors is a belief that town centres now hold real opportunities for additional trade. Often stores have to be smaller, designed in a different way and compromised in operational terms, but with limited competition from major town centre development and non-food retailers expansion, town centre locations are likely to provide increasing opportunities over the next few years.

Smaller towns and centres are being lined up eagerly by most of the operators where populations as low as 7,000 can prove attractive. The requirement is for there to be no existing competition, or where the retailer can dominate food sales for the area and act as an interceptor against the large satellite stores which traditionally have served these centres.

Rental Value

Town Type	Store Type	Rental Range
Large towns	Large format stores	£18-25 psf
Small towns	Large format stores	£15-£20 psf
Town centres	Large format stores	£15-25 psf
Town centres	Small formats stores	£10-£20 psf
London conurbation	Large format, limited competition	£30 psf +

Yield Profile

Description	Store Type	Equivalent Yield
Fixed or indexed uplifts at RR	Large format	4.25% – 4.75%
Large centres (Standard RR to MR)	Large format	4.75% - 5.25%
Small centres (Standard RR to MR)	Large format	5.00% - 5.50%

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Foodstore operators offer any store size format you want, providing you can secure planning permission and dominate trade. Flexibility has fast become a byword and the days when the surveyor would push an opportunity aside because the site did not fit the standard store layout are fast disappearing.

While the major food retailers are steadily acquiring forecourt outlets, the total number of petrol stations is in decline as more close in the face of stiff competition and falling margins

The Mary Portas Review and Government response acknowledge that food sales are now a local shop facility and simply trying to recreate large format stores in the town centre or within the inner circle is not always the best or right solution for this type of retailing.

On-line shopping and direct delivery to the doorstep in food shopping is set to grow. However, Ocado continues to falter with its equity stakeholders showing signs of losing patience. For a profitable outcome the model has to be based on the local store and an equivalent experience on the quality and speed of the food drop activity.

Rental values vary to reflect the different nature of stores and their potential catchments and although no one size fits all, the categories shown in the chart opposite demonstrate the range of rents that are currently being achieved, but subject to significant variances depending on the circumstances, from £10 to over £30 psf. There appears to be more growth potential here but the impact of competition and cannibalism has become a clear threat.

C&P

Planning

NPPF – Evolution or Revolution?

The publication of the draft National Planning Policy Framework (NPPF) in July last year prompted an unprecedented response in the national media and amongst the chattering classes of Middle England. At times, this verged on the hysterical as we saw claims from the likes of the Council for the Protection of Rural England and The National Trust that the proposed reforms would lead to "unchecked and damaging development" and a high profile campaign by the Daily Telegraph - in its 'Hands off Our Land' campaign.

Throughout 2011 the Coalition Government continued its onslaught on what were described as "the enemies of enterprise" and "town hall officials who take forever with planning decisions". These comments have elicited a stern response from the likes of the RTPI - which has repeatedly asked for evidence to back these claims. Whatever the truth of the matter, the planning process is a fundamental component of the development process and does influence the cost, timing and delivery of new development. Few can seriously argue that over the last 10 years it has become more complex, cumbersome to operate, as well as more difficult and expensive for applicants to negotiate.

The Chancellor duly promised "the biggest reduction in business red tape ever undertaken" during his Budget Statement on the basis that "you can't earn your future if you can't get planning permission!"

The NPPF came into immediate effect when it was published on 27th March. It swept away over forty existing planning statements and 1,300 pages of planning guidance that had built up under successive governments. They were replaced with just 49 pages of guidance. The final version included various concessions to those who had responded to the original consultation and sought to address concerns raised by backbenchers. It also appeared to demonstrate a degree of consensus building within Whitehall after a period of internecine warfare between the Treasury and the Department of Communities and Local Government.

The NPPF went some way to appeasing the concerns of the protectionist and environmental lobby, but it retains an inherently 'pro-growth' agenda. It also retained the much-maligned but, in our opinion, hardly revolutionary 'presumption in favour of sustainable development' that had appeared in the draft. It is described as the 'golden thread' running through both plan-making and decision-taking in the NPPF.

Much has already been written about what the NPPF says, but what effect is its implementation likely to have on the planning process in England? (We must

remember, of course, that Scotland, Wales and Northern Ireland now have their own national planning policy regimes which mean that they can operate in slightly different ways - and with different priorities - than those now in place in England.)

Will the new NPPF therefore encourage new development and deliver the growth that the economy so desperately needs?

The NPPF may well have swept away the byzantine edifice of planning policy guidance that has been erected by successive administrations. This has to be welcomed in principle. On the other hand it has, in some areas, led to the removal of a well-established and clear framework of policies in favour of a more 'broad brush' approach. Chase & Partners believe this will lead to ambiguity and create uncertainty - for planning authorities when preparing local plans and determining applications, and for many applicants promoting development that is either not mentioned in an up-to-date local plan or potentially inconsistent with its provisions.

This will certainly apply to development for what the NPPF defines as 'main town uses' that were previously governed by the provisions of 'PPS4: Planning for Sustainable Economic Growth.' The Framework – and Ministerial Statement that accompanied it – stressed the importance of town centres and reflects a continuing commitment to protecting and enhancing existing town centres as retail destinations. However, implementation of the NPPF means that the eight policies for 'plan making' and the ten 'development management' policies in PPS4 have now been replaced by paragraphs 18-28 of the NPPF. The policies in PPS4 reflected what has become well-established policy that, in the main, was well-understood by most planning authorities and by applicants. The absence of this detailed policy framework – particularly in relation to application of the 'sequential approach' and in relation to impact – will lead many authorities to 'fall back' on the previous policy framework as well as the associated supporting advice. Worse still, there is a risk that some authorities might seek to place their own 'localist' interpretation of the NPPF when preparing development plans or determining applications for 'town centre' development on edge of centre or out-of-centre sites that are not allocated in existing development plans.

The NPPF restates the pre-eminence of the Development Plan in decision making and places an onus on planning authorities to ensure all plans are up-to-date. Given the woeful performance of the majority of local planning authorities in achieving development plan coverage since 2004 (when the system of Local Development Frameworks was introduced), one has to seriously wonder what, realistically, will be achieved in the 12 months that authorities are being given to conduct "efficient and effective reviews" of all existing plans to reflect the provisions of the NPPF.

Planning consultancy advice given for the development of Coseley Eco Park, Dudley – 65 acre mixed use development

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Community Infrastructure Levy (CIL) – London

Greater London Authority and Transport for London

On April 1st the London Mayoral Community Infrastructure Levy (CIL) came into effect and applies to all developments consented after that date. The London-wide levy is to raise money for strategic infrastructure that the Mayor, including Transport for London, seeks to implement. It is intended to raise £300million towards the delivery of Crossrail.

The Mayoral CIL has been set by zones and will be collected by London Boroughs once planning permission has been granted for most developments. These are as follows:

Zone 1 boroughs - £50 per square metre

Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames, Wandsworth

Zone 2 boroughs - £35 per square metre

Barnet, Brent, Bromley, Ealing, Greenwich, Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark, Tower Hamlets

Zone 3 boroughs - £20 per square metre

Barking and Dagenham, Bexley, Croydon, Enfield, Havering, Newham, Sutton, Waltham Forest

There are two instances when there is no payment:

1. Development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner; and

2. Development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

London Authorities

However, it should be noted that Local Authorities in the Capital are also in the process of developing their own levies and are at different stages. Most are out to consultation, but the London Borough of Redbridge has implemented theirs and the London Borough of Croydon aims to finalise its own in April 2012.

The use of CIL is discretionary and Section 106 agreements will remain. However, from 2014 Councils will be unable to pool S106 contributions from more than five developments and this is seen as a way of encouraging all authorities to adopt CIL. Therefore there will be a significant variation in the different charging schedules across the Capital. There is still opportunity to make representations on CIL including rate setting, but this is limited within London.

What we have been up to - 2011/12...

Out-of-Town Agency
Asset management advice on a number of retail parks within the client's portfolio.

Out-of-Town Agency
Lease regearing to B&Q following their acquisition of a former Focus DIY, acting on behalf of The Churchmanor Estates Company Plc.

Out-of-Town Investment
Investment acquisition of Humberston Country Club, let to Virgin Active Limited, on behalf of a private investor.

Out-of-Town Agency
Asset management advice on Warren Retail Park, Ashford, including a recent letting of the former MFI to Family Bargains (99p Stores).

Planning Consultancy
Ongoing planning consultancy advice given on numerous retail parks within the client's portfolio.

Planning Consultancy
Chase & Partners negotiated consent for redevelopment of the existing athletics stadium in the Green Belt at Barnet Copthall in North London to provide a new Community Stadium and permanent home for Saracens Rugby Club.

In-Town Agency
Continued advice given on Central London aquisitions

Out-of-Town Agency
Asset management and development consultancy advice given in relation to the partial redevelopment of Meteor Retail Park, Derby for a 100,000 sq ft foodstore and reconfiguration of adjoining non-food retail warehousing.

Out-of-Town Agency & Professional
Asset management and rent review advice on a number of retail parks within the client's portfolio.

Professional
Rent review advice given on B&Q in Trafford, including referral for expert determination.

In-Town Agency
National acquisition advice including the client's Central London debut on Monmouth Street WC2.

In-Town Agency and Investment
Agency and Investment advice given on the client's Central Street Estate, Clerkenwell - including a recent letting to Tesco Express.

In-Town Agency
Retained advisors for the South of England for the acquisitions of new shops

Planning Consultancy
Ongoing planning consultancy advice given to Redbourn Group for the development of 22 Howdens units so far in 2011/2012.

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